

The AGF Companies ~~###~~ Annual Report 1980



HOWARD ROSE LIBRARY
OF MANAGEMENT
APR 24 1981
MCGILL UNIVERSITY



Head Office:

A.G.F. Management Limited
50th Floor,
Toronto Dominion Bank Tower
Toronto, Ontario
M5K 1E9
(416) 367-1900

AGF Securities, Inc.
618 S. Spring St.
Los Angeles, California
90014

Stock Transfer Agent
Montreal Trust Company

Stock Exchange Listing
Toronto: Stock symbol AGFM

Auditors
Price Waterhouse & Co.
Toronto, Ontario

Officers & Directors

W.A. Manford,
Director and Chairman of the Board

C.W. Goldring,
Director and President

K.J. Gray,
Director and Senior Vice-President

W.R. Farquharson,
Director and Vice-President

W.A. Keyser,
Director

G.B. Sutherland,
Director

W.W. Berghuis,
Vice-President

W.D. Cameron,
Vice-President

R.J. Whiting,
Vice-President

Y.C. Jerred, C.G.A.,
Treasurer

M.J. Turner,
Secretary

C.M. MacNeil,
Assistant-Treasurer

Report to Shareholders

The Company's fiscal year which ended November 30, 1980 was one of significant accomplishments. In the markets it was an exceptional year with share prices, after a sharp decline in the first quarter, rising generally throughout the year. There were two peaks in interest rates – one in March and again in December – which saw short-term rates reaching almost 20%. Despite these challenges, there was a continuation of the recent trend toward greater public interest and participation in equity investment.

The most remarkable achievement of the year was the performance of the equity Funds managed by the Company. In the Financial Times measurement of fund performance at November 30, 1980, Growth Equity Fund was first among all comparable funds, with a 95.3% rate of return for one year. This Fund was also first for 3 years (61.8%), 5 years (45.9%) and 10 years (20.2%). These figures of annual compound rates of return represent an outstanding accomplishment. The full summary of the performances of the AGF Funds is presented on Pages 4 and 5.

As investors increasingly sought high rates of return to offset inflation, sales of the AGF Funds reached new levels. Credit must be given to the investment dealers and mutual fund specialists who so ably presented these Funds to clients for their consideration. In addition, our marketing division helped in a very material way by keeping the individual registered representatives informed as to the progress being made by the specific Funds.

A major cross-country presentation was made in September, 1980 at which time the AGF Special Fund was again opened for public sale. This Fund was initially sold in a single offering in December, 1968 with no additional sales being made, although redemptions were permitted. Investors responded enthusiastically to the opening up of this Fund and net assets rose to \$28 million from \$16 million at the time the offering was initiated.

Another important presentation was made in November at which time visits were made to major Canadian cities by our marketing representatives together with Mr. Sengo Mizutani of Nomura Research Institute in Tokyo which manages AGF Japan Fund. Again investors responded with increased purchases of the Fund's shares.

Part of the marketing program for 1980 was a more extensive use of advertising in the financial pages of Canada's major newspapers. The purpose of this advertising was to bring the attractive attributes of the Funds to both the public and the financial intermediaries who sell them to the public. Of particular merit was "Our Group of Seven" advertisement which was very well received, particularly by dealer registered representatives who obtained a strong response from the public.

In the last annual report reference was made to the newly acquired subsidiary, Strathy & Simmons Limited. This Company, which is described more fully on Page 2, has increased its revenue sharply during the year and has established itself as the leading domestic interbank money market broker in the country. Volume of interbank dealings currently exceeds \$40 million per day.

As a result of these activities, overall revenues increased a substantial 80% over 1979 and, while operating costs were up 48%, net profits increased 169% to 71 cents per share. This is a substantially higher level of earnings for the Company and is based on a much higher level of assets under management (\$420 million versus \$272 million), sharply increased sales of the Funds, and significant revenue contributions from the other divisions of the Company, such as AGF Securities, Inc. – up 32%; and investment counseling – up 53%.

As the volume of business increases, so does the requirement for capital, although to a much lesser extent than in many other companies. Nevertheless, the costs of goods and services required for

business operations are up sharply, and if an acquisition or expansion program should be made, the capital cost could be quite substantial. Thus, the current dividend rate of 40 cents is lower than what has been traditionally the pattern in the past, but reflects the requirements resulting from the higher volume of business, potential capital investments and a relationship with earnings based on a longer period of time, rather than the immediate past year's performance.

An event of great sadness to the Company was the passing of Mr. Harold Turner, one of the original Directors of the Funds managed by A.G.F. Management Limited. His warm personality and wisdom will be missed, but his outstanding contribution to the business affairs of the Funds will always be remembered with gratitude.

In June of last year a new Director was elected to the Funds' Boards, Mr. Robert Taylor, who has had a distinguished career with one of Canada's major steel companies, and more recently as Chairman of Ontario Hydro.

The Directors again wish to pay tribute to the dedication and skill of our entire staff for their outstanding efforts in the year just ended.

C. W. Goldring



C. Warren Goldring
President

The AGF Companies – Who We Are



Mutual Funds

The AGF Companies have been leaders in the field of asset management for nearly a quarter of a century. Our first fund was formed in 1957, and the group has grown to eleven mutual funds under management. The group has a variety of investment objectives including aggressive growth, moderate growth, income and fixed income. The group also provides access to securities in the U.S. and Japan, in addition to its diverse investments in Canadian securities. The convenience, liquidity, and interconvertability of the group, combined with the income and capital growth opportunities generated have made our fund group attractive investments for over 100,000 investors at home and abroad. A review of performance results is shown on pages 4 and 5.

MFS Limited

This Company was formed four years ago by the AGF Companies, which owns 20% of its shares, and by the Canada Systems Group (the nation's leading computer company), which owns 80%. The function of the organization is to provide a wide range of administrative and data processing services to several major mutual fund groups, trust companies and banks.

AGF Securities, Inc.

The AGF Companies maintain a seat on the Pacific Stock Exchange in Los Angeles through a subsidiary, AGF Securities, Inc. This division primarily operates as a floor broker, carrying out trans-

actions for other financial organizations. The volume of transactions on the Exchange has increased in the past year, as has the volume handled by our subsidiary.

Investment Counsel

Our Investment Counsel Division manages investment portfolios for individuals and for family accounts. We provide service in the form of individually managed accounts, tailored to investors' personal objectives and needs. In selecting securities for these individual accounts, we draw on the same knowledge, experience and sources of information used to direct the AGF Mutual Funds. Continued steady growth is anticipated in this aspect of our operations.

Strathy & Simmons Limited

This unique division, acquired in late 1979, provides specialized cash asset and liability management advisory services to corporations and institutions. In addition, Strathy & Simmons Limited provides an interbank deposit brokerage service to a variety of domestic and international banking institutions. The recent passage of The Bank Act provides encouraging future prospects for growth potential.

Consolidated Five Year Review

(\$000s)	1980	1979	1978	1977	1976
Operations:					
Total revenue	9,930	5,504	4,560	4,722	5,696
Income from operations before extraordinary items	1,441	526	395	414	327
Net income	1,452	539	487	638	365
Dividends paid	636	410	513	287	408
Financial position:					
Working capital	2,472	2,122	2,040	2,168	1,320
Invested capital**	4,949	4,347	4,219	4,253	3,909
Long-term debt	-	245	251	264	274
Shareholders' equity	4,720	3,903	3,775	3,800	3,451
Return on invested capital	29.1%	12.1%	9.4%	9.7%	8.4%
Per share Class B & common					
Net income before extraordinary items	.70	.25	.19	.20	.16
Net income	.71	.26	.24	.31	.18
Dividends	.31	.20	.25	.14	.20
Book value	2.30	1.90	1.84	1.85	1.68
Investment fund assets under management:					
(\$millions)	420	272	212	221	233

**Invested Capital = Total assets less current liabilities

Mutual Funds – Description & Performance:

Canadian Gas & Energy Fund Limited*

Objective:
High growth

A fund specializing in securities of companies involved in oil, gas and energy, here and abroad.

*Qualifies for RRSP, RHOSP

AGF Special Fund Limited

Objective:
High growth

A speculative fund investing primarily in the securities of emerging high growth U.S. Corporations.

AGF Japan Fund Limited

Objective:
High growth

Provides a convenient way for investors to capitalize on the growth of the dynamic Japanese economy.

American Growth Fund Limited

Objective:
High growth

This fund invests in the New York Stock Market, in stocks of major growth companies with superior earnings potential.

Growth Equity Fund Limited*

Objective:
High growth

A fund invested in securities of medium size Canadian enterprises, offering high growth potential.

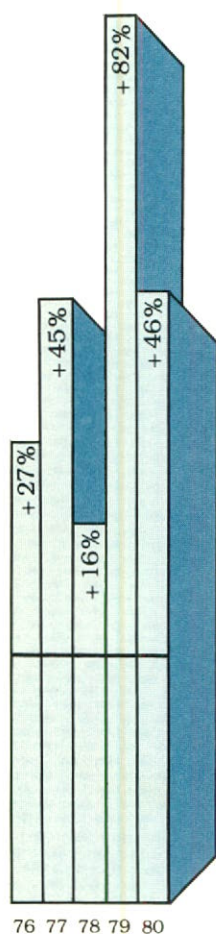
*Qualifies for RRSP, RHOSP

Corporate Investors Stock Fund Limited*

Objective:
High growth

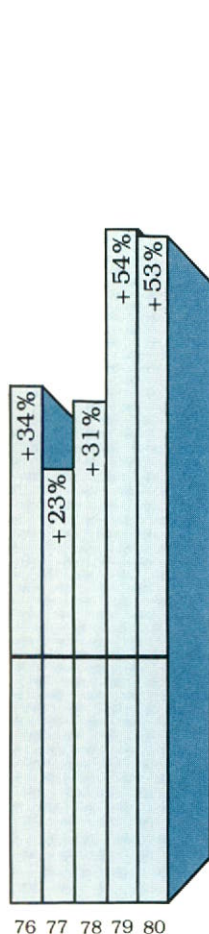
A growth fund which seeks long-term capital appreciation primarily in Canadian securities.

*Qualifies for RRSP, RHOSP



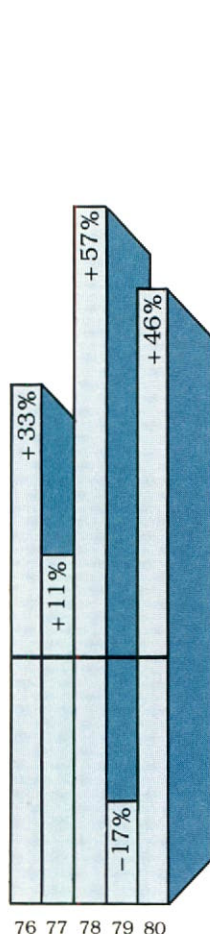
Total Performance
Jan 1, 1975 –
Dec. 31, 1980

+ 665%



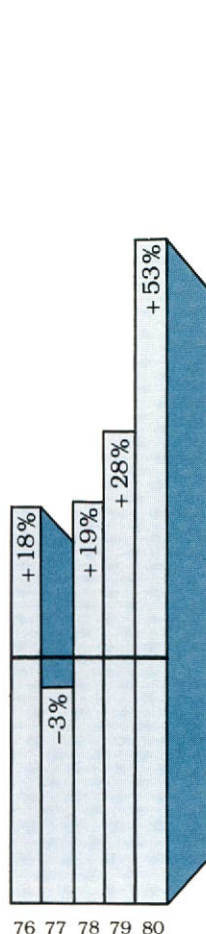
Total Performance
Jan 1, 1975 –
Dec. 31, 1980

+ 620%



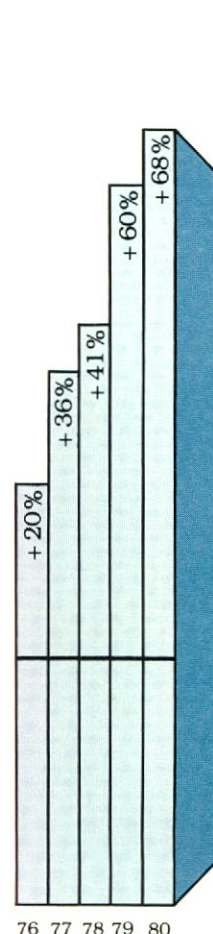
Total Performance
Jan 1, 1975 –
Dec. 31, 1980

+ 288%



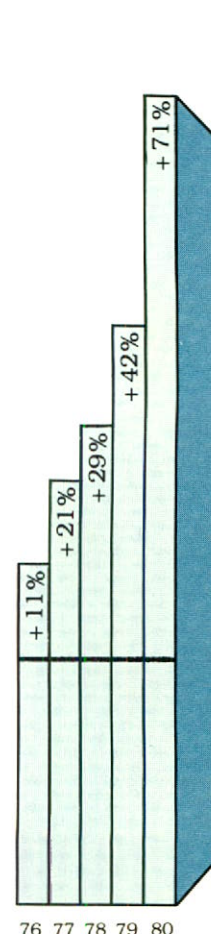
Total Performance
Jan 1, 1975 –
Dec. 31, 1980

+ 217%



Total Performance
Jan 1, 1975 –
Dec. 31, 1980

+ 639%



Total Performance
Jan 1, 1975 –
Dec. 31, 1980

+ 458%

Canadian Security Growth Fund Limited*

Objective:
Moderate growth and income

This fund invests in Canadian growth and dividend stocks, and is designed specifically for all types of savings plans.

*Qualifies for RRSP, RHOSP

AGF Money Market Fund*

Objective:
High income

Invests primarily in short-term money market instruments, providing convenience, high income and safety of capital.

*Qualifies for RRSP, RHOSP

Corporate Investors, Limited*

Objective:
Income and moderate growth

Canada's oldest fund offers a balanced portfolio consisting primarily of Canadian dividend-paying stocks.

*Qualifies for RRSP, RHOSP

Canadian Trusteeds Income Fund*

Objective:
Fixed income

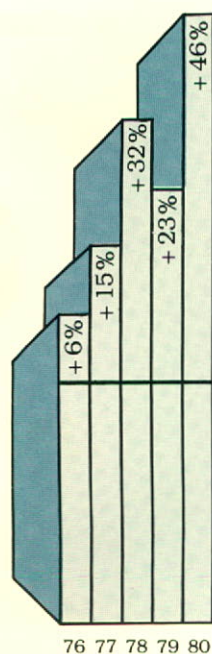
A high quality income fund, investing primarily in government and corporate top quality bonds.

*Qualifies for RRSP, RHOSP

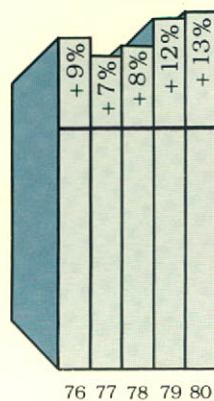
AGF Option Equity Fund

Objective:
Moderate growth and income

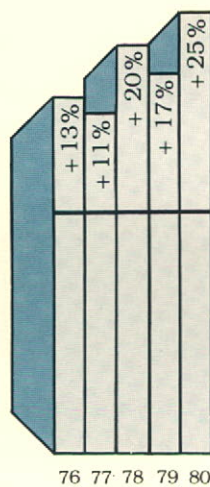
Allows participation in a high quality portfolio while increasing return and decreasing risk through an option-writing program.



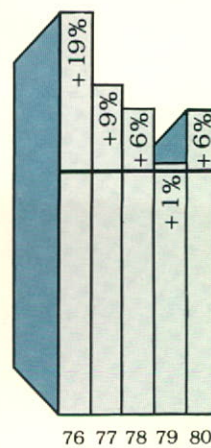
Total Performance
Jan 1, 1975 -
Dec. 31, 1980
+ 288%



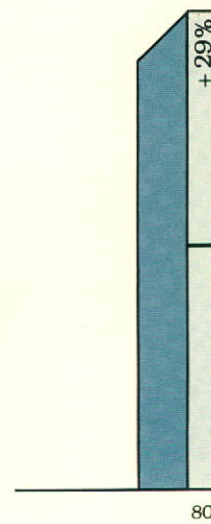
Total Performance
Jan 1, 1976 -
Dec. 31, 1980
+ 59%



Total Performance
Jan 1, 1975 -
Dec. 31, 1980
+ 145%



Total Performance
Jan 1, 1975 -
Dec. 31, 1980
+ 63%



Total Performance
Jan 1, 1980 -
Dec 31, 1980
+ 29%



Consolidated Statement of Income

	Year ended November 30	
	1980	1979
Revenue:		
Commissions	\$5,156,028	\$2,132,051
Management fees	3,770,321	2,469,446
Administration fees and other revenue	1,003,972	902,680
	9,930,321	5,504,177
Expenses:		
Commissions	3,729,995	1,472,603
Selling, general and administrative	3,200,457	3,175,451
Interest on convertible debentures	19,600	20,050
Depreciation and amortization	38,937	38,500
	6,988,989	4,706,604
	2,941,332	797,573
Income taxes (Note 6):		
Current, including foreign withholding taxes	1,462,978	257,807
Deferred	(4,199)	(2,691)
	1,458,779	255,116
Income before the undernoted items	1,482,553	542,457
Interest of minority shareholders in earnings of a subsidiary	(41,493)	(16,093)
Net income before extraordinary item	1,441,060	526,364
Extraordinary item:		
Reduction of income taxes arising from the carry-forward of prior years' losses	11,000	12,800
Net income for the year	\$1,452,060	\$ 539,164
Net income per share (Note 7)	71¢	26¢

Consolidated Statement of Changes in Financial Position

	Year ended November 30	
	1980	1979
Working capital provided:		
From operations— Net income before extraordinary item	\$1,441,060	\$ 526,364
Add (deduct) charges (credits) not affecting working capital— Depreciation and amortization	38,937	38,500
Gain on disposal of fixed asset	(3,156)	—
Deferred income taxes	(4,199)	730
Income taxes not payable due to loss carry-forward	11,000	12,800
Interest of minority shareholders in earnings of a subsidiary	41,493	16,093
Equity earnings of MFS Limited	(99,138)	(70,325)
Other	—	(325)
	1,425,997	523,837
Working capital applied:		
Acquisition of subsidiary (including working capital deficiency assumed – \$9,854) (Note 5)	44,855	—
Purchase of investment	115,040	—
Purchase of office furnishings, equipment and leasehold improvements (net)	16,939	11,498
Current portion of 8% convertible debentures	245,000	—
Dividends paid	636,274	410,499
Reduction of convertible debentures	—	6,175
Other	17,983	13,470
	1,076,091	441,642
Increase in working capital (Note 10)	349,906	82,195
Working capital at beginning of year	2,122,138	2,039,943
Working capital at end of year	\$2,472,044	\$2,122,138

Consolidated Balance Sheet

Assets

	November 30	
	1980	1979
Current Assets:		
Cash	\$ 1,165,719	\$1,001,636
Cash held in trust	2,005,828	1,356,026
Short-term investments, at cost (market value \$1,958,725; 1979 - \$1,180,716)	1,958,725	1,180,716
Marketable securities, at lower of cost and written down value (market value \$687,156; 1979 - \$285,159)	494,888	269,888
Receivable for sales of mutual fund shares	4,220,675	886,054
Other accounts receivable and accrued income	827,140	396,472
Prepaid expenses	45,819	92,464
	10,718,794	5,183,256
Investments (Note 2)	351,522	137,344
Office furnishings, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of \$646,048 (1979 - \$607,111)	207,369	213,596
Deferred income tax charges and estimated future tax benefits	35,669	10,970
Other assets, at cost	179,870	179,870
Excess of cost of shares of subsidiary companies over book value at dates of acquisition	1,702,820	1,683,995
	\$13,196,044	\$7,409,031

APPROVED BY THE BOARD:
C.W. GOLDRING, Director
WALTER A. KEYSER, Director

Liabilities and Shareholders' Equity

	November 30	
	1980	1979
Current Liabilities:		
Payable to mutual funds for purchases of shares	\$ 6,166,831	\$2,224,795
Accounts payable and accrued liabilities	636,235	705,768
Income taxes payable	1,090,687	48,345
8% convertible debentures (Note 3)	245,000	—
Provision for foreign withholding taxes	107,997	82,210
	8,246,750	3,061,118
8% convertible debentures (Note 3)	—	245,000
Warrant stabilization fund (Note 4)	164,418	164,418
Interest of minority shareholders in net assets of a subsidiary	65,302	34,707
Shareholders' equity:		
Capital stock		
Authorized—		
2,700,000 Class B non-voting participating preference shares without par value		
240,000 common shares without par value		
Issued and outstanding—		
2,050,470 Class B shares	1,458,344	1,458,344
2,400 common shares	40	40
	1,458,384	1,458,384
Retained earnings	3,261,190	2,445,404
	4,719,574	3,903,788
	\$13,196,044	\$7,409,031

Consolidated Statement of Retained Earnings

	Year ended November 30	
	1980	1979
Retained earnings at beginning of year	\$2,445,404	\$2,316,739
Net income for the year	1,452,060	539,164
	3,897,464	2,855,903
Deduct: Dividends on Class B and common shares (31¢ per share; 1979 - 20¢)	636,274	410,499
Retained earnings at end of year	\$3,261,190	\$2,445,404

Auditors' Report

To the Shareholders of A.G.F. Management Limited:

We have examined the consolidated balance sheet of A.G.F. Management Limited as at November 30, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our

examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the

Company as at November 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Price Waterhouse & Co.
Chartered Accountants
Toronto, Ontario
January 14, 1981

Notes to Consolidated Financial Statements

November 30, 1980

1. Accounting Policies:

Consolidation —

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

The records of AGF Securities, Inc., a New York corporation, are maintained in U.S. dollars. The accounts are translated into Canadian dollars for inclusion in the consolidated financial statements as follows: assets and liabilities at the rate of exchange in effect at November 30, except certain non-current assets which are at rates in effect when acquired; income and expenses at average rates of exchange during the year. Unrealized gains and losses on translation are included in the

consolidated statement of income.

Excess of cost of shares of subsidiary companies over book value at dates of acquisition —

These amounts relate substantially to acquisitions made prior to April 1, 1974 and are not being amortized since in the opinion of management their value has not diminished.

Depreciation —

Depreciation is recorded in the accounts of the companies at the maximum rates allowed for income tax purposes.

Income of foreign subsidiary —

Withholding taxes are provided on the portion of the earnings of AGF

Securities, Inc. which might reasonably be expected to be paid to A.G.F. Management Limited in future dividends. Accordingly, withholding taxes have been provided on the excess of the shareholder's equity of AGF Securities, Inc. over \$750,000. Consolidated income for 1980 and 1979 have been charged with withholding taxes of \$25,107 and \$15,373 respectively.

Income taxes —

The Company provides deferred income taxes on timing differences between income for tax purposes and income recorded in the accounts.

2. Investments:

	November 30	
	1980	1979
Shares of MFS Limited, at equity (representing a 20% interest)	\$236,482	\$137,344
Units in non-marketable investment, at cost (representing a 9% interest in a limited partnership)	115,040	—
	<u>\$351,522</u>	<u>\$137,344</u>

The Company's share of the net earnings of MFS Limited for the year ended November 30, 1980 amounted to \$99,138 (1979 \$70,325) and is included in revenue in the consolidated statement of income.

The units in the limited partnership have been acquired by the Company through its subsidiary, AGF Securities, Inc.

3. 8% Convertible Debentures:

The 8% convertible debentures are redeemable sinking fund debentures maturing November 25, 1981. Each debenture is convertible at any time prior to November 23, 1981 into Class B non-voting shares on the basis of one share for each \$14 of debenture principal. For this purpose 17,500 Class B non-voting shares are reserved. The debentures were issued under a trust

indenture dated October 15, 1971 and are secured equally and rateably by a floating charge upon the undertaking and all the property and assets of the Company. The trust indenture provides that a sinking fund be established requiring payments to the Trustee of such amount as shall be sufficient to retire \$50,000 principal amount of the debentures on November 25, in each of

the years 1976 to 1980 inclusive.

To date \$255,000 principal amount of the debentures have been purchased for cancellation or converted to Class B shares. In accordance with the provisions of the trust indenture, the purchased or converted debentures are available to be used as a credit against the required sinking fund payments referred to in the preceding paragraph.

4. Warrant Stabilization Fund:

Pursuant to arrangements made with the Ontario Securities Commission in 1965, net gains realized from trading in Canadian Gas and Energy Fund Ltd. Series B warrants are to be used in stabilizing the warrant market and for assistance in the eventual elimination of such warrants. The warrant stabilization fund is not available for distribution to the shareholders of A.G.F. Management Limited.

5. Acquisition of Subsidiary:

On December 27, 1979 AGF Securities (Canada) Inc. purchased all the issued and outstanding common shares with no par value of Strathy & Simmons Limited for \$1 and thereafter subscribed \$35,000 in cash for an

additional 35,000 common shares. The acquisition has been accounted for by the purchase method and the results of its operations have been included since December 31, 1979, the effective date of the acquisition.

At acquisition, the amount of \$20,500 was assigned from the purchase consideration being the estimated future tax benefit which would be realizable due to losses carried forward for tax purposes.

6. Income Taxes:

The 1979 and 1980 income tax provision is lower than prevailing tax rates because the statement of income includes certain non-taxable earnings.

As at November 30, 1980 the following amounts are available to offset against future taxable income, the potential tax benefit of which has not been recorded in the accounts:

Loss carry-forward represented by excess of undepreciated capital cost of fixed assets for income tax purposes over net book value

Amounts charged against income in the accounts not yet claimed for income tax purposes

November 30	
1980	1979
\$137,500	\$159,000
33,300	33,300
<u>\$170,800</u>	<u>\$192,300</u>

7. Earnings per Share:

	Year ended November 30	
	1980	1979
Earnings per Class B and common share –		
Net income before extraordinary item	70¢	25¢
Extraordinary item	<u>1</u>	<u>1</u>
Net income for the year	<u>71¢</u>	<u>26¢</u>

No dilution would result upon the exercise of the outstanding shares reserved for the conversion of the 8% convertible debentures.

8. Long-term Lease Commitments:

The Company is committed under a long-term lease for office premises expiring January 31, 1988, which requires annual rental payments, subject to future escalation charges, of approximately \$343,000.

9. Remuneration of Directors and Senior Officers:

During the year ended November 30, 1980 a total of thirteen directors and senior officers received direct remuneration totalling \$512,889 as compared with \$371,413 for thirteen directors and senior officers during the prior year.

10. Analysis of Changes in Working Capital:

	Year ended November 30	
	1980	1979
Increase (decrease) in current assets:		
Cash, term deposits and short-term investments	\$1,591,894	\$1,196,337
Accounts receivable	3,765,289	364,656
Marketable securities	225,000	(102,448)
Prepaid expenses	(46,645)	64,616
	<u>5,535,538</u>	<u>1,523,161</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	3,872,503	1,495,504
Income taxes payable	1,042,342	(66,490)
8% convertible debentures	245,000	—
Provision for foreign withholding taxes	25,787	15,373
Deferred income taxes	—	(3,421)
	<u>5,185,632</u>	<u>1,440,966</u>
Increase in working capital	\$ 349,906	\$ 82,195

11. Related Party Transactions:

(a) Agreements with mutual funds —

The Company acts as manager for the following mutual funds: AGF Japan Fund Limited, AGF Money Market Fund, AGF Option Equity Fund, AGF Special Fund Limited, American Growth Fund Limited, Canadian Gas and Energy Fund Limited, Canadian Security Growth Fund Limited, Canadian Trust Income Fund, Corporate Investors, Limited, Corporate Investors Stock Fund Limited, Growth Equity Fund Limited

Substantially all of the commissions received relate to the sales of shares in the various funds for which it acts as exclusive wholesaler – distributor. It also receives investment management fees from the mutual funds in accordance with the respective agreements between the funds and the Company.

In return, the Company is responsible for the management of the funds' investment portfolios and the provision of sales and administrative services for which it receives the management fee payable monthly in arrears, based on the average daily net asset value of the individual funds. During the year ended November 30, 1980, the Company earned \$3,740,034 from these management fees.

The management agreements between the Company and several funds were amended in December 1979, effective January 1, 1980 to permit a revision of the management fee structure. These amendments also provided that expenses, previously borne by the Company, incurred by or on behalf of the funds in connection

with all matters other than the provision of advice with respect to investments and management services, will be the direct responsibility of the funds.

(b) Agreement with MFS Limited —

The Company uses the facilities and services of MFS Limited to perform the stock transfer functions with regard to the various funds. During the year ended November 30, 1980 charges incurred, which are settled on a monthly basis, were \$655,215 of which \$134,333 were borne by the Company and the balance by the various funds.

(c) Short-term Investments —

Short-term investments includes 184,080 units of AGF Money Market Fund, an open-end mutual fund managed by the Company.

